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SUBJECT: FRANCE: ENERGY SECTOR UPDATE

11. (U) This another in a series of occasional updates on the French energy sector. Feedback is welcome to help us make this product as useful as possible for our inter-agency USG audience.

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12. (U) France's energy review recommends greater use of biofuels: On May 15, French Prime Minister Dominique de Villepin announced new measures to boost the use of biofuels in vehicles in France and reduce the country's rising oil bill on its way to a "post-oil" era. New measures aim at increasing the blending of biofuels in cars to 10 percent by 2015, according to the French Prime Minister. The measures are part of a wide-ranging energy policy review. Villepin's objective is to ensure that by the end of the decade every French citizen can buy a vehicle able to run on high biofuels blends. In this context, Villepin said he wanted to see a genuine network of "green refueling stations," noting that they are already a reality in Brazil and Sweden. He announced that an action plan will be presented "by the summer" which will bring together car manufacturers, oil distributors, farmers and consumers.

13. (U) France's energy review also recommends greater investment in refining and solar power: De Villepin also announced other measures as part of France's current energy review, including a commitment by oil producers to invest four billion euros in new refining capacity as well as research by the end of the decade. The GOF will also promote solar power with the state covering half the installation cost of solar roofing and a commitment by EDF to buy solar electricity at double the current price. Finally, de Villepin said his government was also committed to raising by 50 percent the price at which biofuels are bought from farms and other waste storage facilities.

14. (U) First tests of flex-fuel cars launched in eastern France: To promote wider use of renewable energy, France introduced on June 1, 2006, its first tests of flex-fuel cars that can run on ethanol or conventional fuel. Launched by Industry Minister Francois Loos, the tests will be carried out in the Marne region, in eastern France. The Marne regional government has a special permit to use the ethanol-based E85 fuel to run a fleet of seven Ford flex-fuel cars for a year. E85 is 85 percent ethanol, a biofuel derived from sugar beet or cereals. However, France's biofuel production is mainly biodiesel, largely made from rapeseed and then blended with conventional diesel. Some 75 percent of French cars run on diesel and this share is expected to grow in the coming years. E85 is not currently authorized in France, but government approval is expected by early next year and the fuel should be widely available by 2010. During the launch of the tests, Loos commented that biofuels were "one way of improving our energy independence, ensuring the protection of the environment and providing new markets for French agriculture." Former racecar champion Alain Prost has been appointed to head a new French working group on biofuels.

15. (U) New Energy Commission appointed: Also on June 1, a new Energy Commission was launched in Paris. Headed by Jean Syrota, the former Chairman of the independent French energy regulator, the Energy Commission will function as a think tank, drafting proposals on the security of energy supply, managing energy risks and other major energy issues in view of the French EU Presidency in the second half of 2008. The 75-member Commission includes trade union and employers' representatives as well as consumer associations, CEOs and economists.

16. (U) French energy imports increase, but nuclear power remains key: In 2005, France spent 38.3 billion euros on imported energy (primarily oil and gas) representing 2.26% of GDP (versus 1.8% in

2004). Consistent with the relative size of the French economy, France ranks as the fourth largest energy consumer among the OECD member countries, but ranks only 27th in CO2 emissions, thanks largely to its fleet of 58 nuclear reactors, all owned and operated by Electricity de France (EDF). In 2005, they produced 430 TWh in electricity, 78% of total electricity production in France, and they have a generating capacity of 63 GWe. France is second only to the U.S. in the production of nuclear power (the U.S. economy is five times larger than the French economy) and second only to Sweden for nuclear power production per inhabitant. The average age of age of nuclear reactors in France is only 20 years. Nevertheless, in order to begin to replace the older reactors in its fleet, construction of an EPR (European Pressurized Reactor) demonstrator in Normandy will begin in mid or late 2007 and be completed by 2012.

17. (SBU) Suez-GDF merger no longer likely: While GOF "activism" spurred the idea of a merger between Gaz de France (GDF) and Suez to stave off a Suez takeover by Italian energy company Enel, political considerations appear to have compromised the planned arranged marriage. A group of members of the National Assembly from the UMP ruling party met with Prime Minister Dominique de Villepin on June 6 and again June 13 to urge him to delay the merger, which involves approving a law to privatize GDF. UMP legislators fear a strong backlash against the privatization of what many French people see as an integral part of their country's "national patrimony," rather than as just another service-providing corporation competing in an EU-wide market. The GDF privatization bill, which calls for the government to reduce its share in GDF to 33 percent, would nullify a 2004 law stating that the GOF stake could not fall below 70 percent. It is not clear whether the plan for a merger will be left as is, modified, or abandoned altogether. On June 7, Economy and Finance Minister Thierry Breton told Parliament would have the last word on the proposed plan. A few days later, the Prime Minister said the merger would go ahead regardless, a statement which infuriated many members of the National Assembly according to UMP Deputy Jean-Francois Gonnnot. Interior Minister Nicholas Sarkozy, for his part, commented that the merger would probably not go through. The EU Commission continues its investigation into the proposed deal, with a ruling expected on July 3. Meanwhile, Enel hovers on the margins, reportedly still interested in Suez.

18. (SBU) France may delay opening of its energy market: With the 2007 Presidential elections in mind, rumors are circulating about a possible delay in France's implementation of the last stage of the EU Energy Directive allowing residential consumers to choose their suppliers beginning on July 1, 2007. On May 29, the French business daily "La Tribune" said that the GOF was planning to keep gas and electricity tariffs regulated beyond July 1, 2007. Citing a government document, the paper added that the GOF was planning to introduce a "social gas tariff" for certain underprivileged users. Furthermore, the paper reported that the government was also considering requiring that the distribution networks of utility groups Electricite de France (EDF) and Gaz de France (GDF) be regrouped into separate divisions if they supplied more than 100,000 customers. EDF and GDF have not yet commented on the report. The European Commission is not likely to approve France's "regulated" version of open markets. This, in turn, could jeopardize the privatization of GDF. A recent pronouncement by France's highest administrative court, the State Council, stated that the privatization of GDF and the law implementing fully open energy markets on July 1, 2007, had to be passed simultaneously or very close together. The Government reportedly plans to make a final decision in the coming weeks and present a draft energy law to the National Assembly by mid-July. In the meantime, three French unions (leftist CGT Energie, and center-right FO and CGC) are calling for demonstrations on June 20 against further market opening and GDF privatization.

19. (U) France and the UK to increase nuclear energy cooperation: On June 9, France and Britain announced that they would intensify collaboration in civil nuclear energy, creating a joint forum to discuss possible cooperation in the sector at a time of deep concern over European energy supplies. The announcement, made at a summit between French President Jacques Chirac and Prime Minister Tony Blair, coincided with growing speculation that Britain may reconsider its current nuclear energy freeze in order to build a new generation of nuclear plants to replace its aging reactors. In a statement released after the meeting, the French and British leaders said: "The Forum will provide a vehicle to discuss Franco-British nuclear cooperation, including research, skills, decommissioning and waste management." The two leaders also agreed to cooperate across a broad range of other issues, including defense and European policy.

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